Life Chances Fund event Q&As

Questions to the Provider

1. Does any element of making the outcomes payments fall to you as the provider?
   No. The commissioner is responsible for making outcome payments. The risk of financial loss pending receipt of those outcomes payments is borne by the investor so risk is transferred away from the service provider in any SIB model.

2. How do you draw down funds from a special purpose vehicle (SPV)?
   An SPV is a financial vehicle to transfer investment capital from an investor to a proposal and to repay that capital and any accrued interest as outcomes are achieved. It allows the investor to take out equity rather than sourcing investment purely from loans and can give access to tax advantages through Social investment tax Relief. Draw down from an SPV is generally managed using cash flow forecasts for the duration of the project.

3. How are provider services procured?
   A competitive tender process was instigated by the commissioner, having determined to commission using a SIB model. It could equally have been instigated by the provider, when bidding for the contract from the commissioner is not ring fenced to purely SIB models and the provider works with the investor to submit a SIB based bid.

4. What additional running costs are involved?
   The majority of costs are attributed to the involvement of an intermediary management agent for the SIB, but you may need to make sure you have all the relevant resources such as a monitoring system that can sufficiently meet the demands of the intervention, as well as appropriate skills to analyse and verify data.

5. Is the SIB model the same as taking out a loan to cover delivery costs?
   That is a commercial possibility, but social investment is repayable at variable outcomes not the fixed rates of a loan. It therefore removes any potential financial risk from the provider, because if the outcomes are not achieved, then the investor does not get repaid. It's worth noting that, whilst you don't bear the full risks using this model, you also don't reap all the rewards should it be successful due to the return that goes back to the investor and you may still have to manage the reputational risk if the proposal is not successful as well as the follow on costs from the cohort of service users.

6. Are there any risks that the provider should be aware of?
   If outcomes are not achieved, then the investor has the power to replace the service provider with another agency to continue delivery of interventions.

7. With regards to the social prescribing model, is there any marketing support or more general support for small community groups?
   A limited pot of development money is available in some areas, which would require a business case to be put forward to access this support.

Questions to the Investor

1. Would a SIB be suitable if there was a lack of capacity in the delivery organisation or a lack of confidence in the intervention?
   No. The provider needs to be able to increase their capacity to meet project demands and needs to be able to offer the investor a level of confidence that makes the proposal investible, albeit the risk may be considerably higher than the risk that would be funded through more conventional sources.

2. Can you clarify how the SASC model works?
   There is a fixed rate charged for the initial investment, and in addition, payments from outcomes are either agreed at a fixed rate of return or a mix of fixed and variable return where risk is shared with the commissioner. The model works on a payments by results basis; SASC does not have the expertise to work with the commissioner on designing the project. The model relies on having an excellent intervention and supporting a competent service provider. SASC are happy to work with commissioners if the provider has an idea; however the provider does risk losing intellectual property if they choose to hand over their idea without adequate safeguards.

3. If the SIB is a huge success, then the commissioner has to pay out more in financial returns than the amount of initial investment. What conversations do you have with commissioners about what funds they have available, and what if the outcomes are met but savings are not made?
   Commissioners need to consider if the cost of SIB delivery will be worthwhile in comparison to the impact that a service user will have on public services over an extended period of time and other existing fee for service interventions. The most important thing is whether or not the savings are cashable. The SIB should be driven by the need for the intervention and what value you attribute to the outcomes, rather than purely on how much money can be saved by the commissioner. Investors want to support ideas for interventions, where there is a very clear result for the payment, or commissioners who already know which intervention they want to use following research or pilots.

4. How does the SIB model support integration of services where there are multiple delivery organisations working towards shared outcomes?
   This is where a special purpose vehicle (SPV) is useful. It's a good way to manage multiple contracts with delivery organisations and commissioners without the model becoming too expensive. It may also help where the contract covers a number of political areas and it is not within the powers of one commissioner to lead across all areas.

5. How does the provider outcome relate to the population outcome?
   Using generic data helps to establish costs and returns for cohorts – these savings are significant, so the cohort population doesn't have to be huge.

6. Who repays the return on investment?
   If outcomes are achieved, the commissioner is responsible for paying any return back to the investor.

Questions to the Commissioner

1. Can an intermediary consultancy also be a co-commissioner?
   Yes – if an intermediary is able to commission services and therefore can make outcomes payments, then it can also play a commissioning role. The same is true of VCSE organisations.

2. Who receives the social investment?
   The funds can either be paid directly to the provider or to the local authority.

3. Do you see SIB models being used more in the future?
   Yes – if this model was offered to local authorities more frequently, it would be used on a more regular basis. As the market in SIBs grows, there is more learning available and greater potential for SIBs to be replicated, to scale up in size and coverage.

4. The benefit of SIBs is that they can generate large cost savings, but shouldn't SIBs be developed from a moral standpoint (tacking a social issue) rather than a financial perspective?
   Commissioners should be encouraged to think about routes to better outcomes for the service user, not just how much money they can save. Most stakeholders involved in SIBs are interested in social impact, though saving s clearly have an incentivising role to play.

General

1. Why are BIG involved in this?
The Big Lottery Fund are experienced in distributing funds and managing projects which target people and communities most in need. We are also experienced in the field of social investment, with the learning from Commissioning Better Outcomes feeding into the development of the Life Chances Fund. We are interested in SIBs in part because they release new funds to smaller VCSEs which could not participate in PbR models or fee for service because of the financial risk.

2. How can we find an investor?
We have produced a directory of SIB investment funds which will help you to source and make contact with social investors.

3. What are the timescales for applying and how long can SIBs run for?
LCF will be open to applications from 4 July 2016 and will run for nine years (up until March 2025). All successful projects will be able to draw down money from the fund during this time (or for the duration of their SIB, if shorter). Projects can run beyond 2025, but top-up funding will not be available beyond the lifetime of the LCF. We would normally expect all payments to have been claimed six months before the closure of the LCF (i.e. October 2024) or closure of your grant, whichever is the earlier. The SIB must launch within 12 months of the final application decision and must be live by July 19.

Call out	EOI deadline	EOI decision	FA deadline	FA decision
1 to 4 July 2016 ***Drug and alcohol dependency*** ***Children's Services***	30 September 2016	31 October 2016	28 April 2017	31 July 2017
2 to 4 January 2017 ***Early Years*** ***Young People***	31 March 2017	30 April 2017	31 October 2017	31 January 2018
3 to 5 June 2017 ***Older people's services*** ***Healthy Lives***	31 July 2017	31 August 2017	30 April 2018	31 July 2018

4. Can central government apply to LCF?
   No, only local commissioners can apply.

5. Why is applying to the Life Chances Fund beneficial for SIBs?
   The top up from LCF subsides the costs borne by the commissioner, which contributes to the model being more financially viable. LCF will also provide a small development grant to support feasibility work on SIBs

6. Can the commissioner be a provider?
   We want to use VCSE providers to help ensure value for money and to engage VCSEs in social investment as a source of funding. However, this programme is not intrinsically about outsourcing of service, so a commissioner service team could act as a lead provider or co-provider alongside sub-contracts to VCSE organisations, working with VCSE providers who, perhaps, deliver more specialist provision.

7. What contractual obligations are likely?
   Contracts will be drawn up between the three main stakeholders:
   - Investors providing the start-up capital to providers directly or through commissioners
   - Providers delivering the services contracted by commissioners
   - Commissioners making outcome payments based on results achieved by providers, which they or the providers will use to meet the costs of the project including repayment of capital and refunding return on investment due to the investors.

8. What timescales do investors require for returns and what format will the return take?
   This is to be negotiated between the applicant, the provider, the commissioner and the investor, but it can often be over four years or more, longer than a single political period, so may need to be proofed against changes in the political context.

9. As value for money is required, will we be able to use our own standard procurement processes and exemptions?
   The fund expects Local authorities to apply the standard procurement procedures when tendering for service providers. OJEU requirements may apply to larger proposals. Where you are looking to procure a very small contract such as work on feasibility, the fund does not require any procurement for contracts under £10K and strongly advises you to avoid full procurement to ensure you meet the very tight deadlines for LCF. Quicker forms of procurement such as preferred suppliers and waiver of financial standing orders are available to nearly all public authorities and provider

lead organisations; but be very aware of potential and perceived conflicts of interest in tendering for any contract.

10. Can you sub-contract and work with multi-partner agencies?
    Yes.

11. Who is responsible for deciding how the development grant funds are spent?
    The applicant to the Life Chances Fund, whether that is the commissioner or VCSE organisation, can allocate development grant funds between the budget headings confirmed in the grant offer letter. The only item that is ring fenced is capacity building funds for LCF commissioners. If the budget head is not referenced in the offer letter or is referenced as ineligible for LCF fun ding in programme guidance then you cannot use LCF funding for this. We do not expect any proposal to use more than £2,000 of LCF funding on project management.

12. How much commitment is required from the commissioner at expression of interest stage?
    The applicant should have had conversations with the commissioner and gained their support for the application, however the commissioner still has the opportunity to opt out if the development does not proceed as planned. A letter of support is beneficial, but not required. LCF is interested in understanding the strength of the internal pathways that a commissioner plans to establish to ensure continuation and stability of the proposal as it progresses towards launch and will test this at EoI and again at DG stages

13. How much commitment is required from the investor(s) at expression of interest stage?
    The applicant needs to have a plan to research potential investors and to be in a position to approach them with initial conversations about the project, however full commitment (with the requisite due diligence) is not required or expected until full award stage once feasibility has been completed and preparations are in train to procure the full SIB.

14. What costs does the social investment cover?
    The investment provides up front capital to pay for any start-up costs, associated intermediary management costs, administration costs to raise the investment and the initial service delivery costs.

15. Who should submit the expression of interest – the VCSE organisation or the commissioner?
    Ideally, the commissioner should be driving the proposal; therefore, it is preferable that they will submit the application. However, we will still accept applications submitted by the VCSE, provided the VCSE is engaged with a commissioner who is supportive of the proposal and is committed enough to discuss their levels of engagement and future plans with LCF.

16. Can you proceed without knowing which delivery provider you will use?
Yes – the provider can be selected through the procurement process. We need to have an idea of the type of service delivery you propose in rough outline illustrated by examples by the time you complete your feasibility work and look to submit a full application to LCF.

17. Is it necessary to involve an intermediary?
Intermediary consultancies can be very beneficial during the development and start up period, as they have a unique set of expertise, experience and skills; however you are not required to engage their services for the purpose of an application to the Life Chances Fund.

18. Do we have to pay the Big Lottery Fund top up back when outcomes are achieved?
The Life Chances Fund top up is a grant, therefore no repayment is required.

19. What should commissioners consider in anticipation of future service cuts and the potential impact this may have on SIBs?
In planning for SIB fund flows over two or three political periods commissioners will need to be aware of the changing financial context in which they are working, as with any other long term or strategic project. Reductions in resources available to a local commissioner may impact on ability to repay outcomes. Clearly such future costs contracted need to be managed in an effective way to ensure that outcomes payments can be met without having to significantly renegotiate contracts or reduce SIB scope in a way that may undermine the longer term future of the project. Similarly expected changes in resources available may impact on the attractiveness on external start-up funding, but careful regard needs to be had with respect to all factors affecting the costing of a SIB against alternative fee for service models rather than focussing purely on future proofing the proposal in isolation.

20. Who do we contact for further information?
You can send all enquiries to the Life Chances Fund inbox at lifechancesfund@biglotteryfund.org.uk